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E.O. 12958: N/A

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SUBJECT: SHAREHOLDERS APPROVE NYSE-EURONEXT MERGER

Ref: Paris 3447

11. SUMMARY: As expected, NYSE and Euronext shareholders voted in favor of a merger, clearing the most significant remaining hurdle to creating a transatlantic stock exchange. Opposition to the merger largely crumbled after NYSE's surging stock price made its offer too attractive to refuse, and after NYSE made concessions on governance rules and gave assurances that U.S. regulations, notably the Sarbanes-Oxley law, would not spill over onto European firms. END SUMMARY.

Shareholders Vote to Merge

12. Shareholders of Euronext, the Paris-based federation of European stock exchanges, approved a merger with the New York Stock Exchange (NYSE) by a margin of 98.2 percent on December 19. NYSE shareholders voted in favor of the merger by a 99.7 percent margin on December 20. The margin of success reflects the high premium NYSE will pay to Euronext shareholders, as well as the value shareholders attached to guarantees NYSE provided to address European concerns about governance of the new firm.

13. Early opponents to the merger had included French President Chirac, who had commented that he favored a "European solution," in reference to an earlier competing bid from the Frankfurt-based Deutsche Borse (DB). DB, however, eventually dropped its bid after the rising price of NYSE shares put its offer out of reach.

Governance Issues

14. Bowing to pressure from Finance Minister Thierry Breton and the influential Parisian financial lobby Europlace, NYSE agreed to modify the composition of its proposed governing board. Under the initial NYSE offer, Europeans would have been outnumbered by eleven to nine on the board of directors. Once NYSE/Euronext obtains final regulatory approvals, the new NYSE/Euronext board should have eleven American citizens including the current director of the NYSE, and eleven Europeans including nine members of the Euronext supervisory board and Euronext CEO Jean-Francois Theodore. The NYSE/Euronext council and the committee for nomination and governance will have the power to change parity rules, but only by a two-third majority vote.

Extraterritoriality Laid to Rest

15. Because of concerns in Europe that strict U.S. accounting and governance rules might be imposed on Europe, NYSE drafted a special arrangement consisting of two stand-by structures, one involving a Dutch foundation and one involving a Delaware trust. The Dutch foundation can take action to mitigate any change in U.S law that

could have extraterritorial impact on Europe. Likewise, the Delaware trust can take action to mitigate any change in European law that could have extraterritorial impact in the U.S.

Paris Europlace Gives its Support to NYSE Euronext

¶16. Paris Europlace commissioned a French capital markets lawyer to analyze the efficiency of the Dutch foundation scheme, and decided there was little risk of US regulations being imposed on European companies listed on Euronext. On the eve of the shareholder vote, Paris Europlace withdrew its objections to the merger, saying the proposed governance structure of NYSE/Euronext, and assurances from European regulators, addressed most of its concerns.

European Regulators Approve the Merger

¶17. Euronext regulators announced on December 5 they had "no intent to object to the NYSE/Euronext merger; the final decision by a committee of Euronext regulators will depend on certain assurances and commitments in specific areas as well as an agreement on final agreements." Euronext regulators said they are working with the U.S. Securities and Exchange Commission (SEC) on a memorandum of understanding for coordinated regulation and supervision of the NYSE-Euronext group, to be signed when the merger receives required approvals and the merger offer is unconditional.

Finance Minister Says Dialogue Must Continue

¶18. In a November 27 Euromoney Conference in Paris, French Finance Minister Thierry Breton proclaimed that the NYSE-Euronext plan had been "modified sensibly." He urged Euronext to stay in contact with the users of its trading platform to ensure that the transatlantic alliance fills their needs.

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Auditors Put High Value on Merger

¶19. The bottom line for most shareholders, of course, turned out to be the share and cash offer from NYSE. The independent expert selected by Euronext concluded that the offer made to shareholders is "equitable from a financial point of view." Based on an estimate of future cash flows, cash premiums would amount to 14.5-19.7 percent of Euronext's share price.

Some French Politicians Still Grumbling

¶10. Socialist politicians, including Arnaud de Montebourg, a close adviser to presidential candidate Segolene Royal, described the NYSE/Euronext merger as "a Trojan Horse for American legal imperialism." Jean-Pierre Chevenement, the head of the leftist "Republican and Citizen Movement" accused the government to have been "scandalously absent," and "not to have tried to impede" the merger between the NYSE and Euronext, which he deemed as "an absorption." Center-right UDF head of the Senate Finance Commission Jean Arthuis declared "he was shocked" by the merger, saying it was a failure for Europe, and "we fought to get the euro, and now the financial community lets New York take control of Euronext."

Next Steps in the NYSE/Euronext Merger

¶11. The merger still is subject to approval by the Dutch finance minister, expected in the second half of January. The NYSE/Euronext merger also has to clear various other European regulatory authorities. NYSE and Euronext planned to complete the deal in the first quarter of 2007.

NYSE/Euronext Predicts Lower Trading Fees

¶12. The alliance will provide international exposure and the opportunity to become the euro zone's biggest primary market. NYSE/Euronext will have a market capitalization of about 29 billion dollars, putting it ahead of Chicago Mercantile Exchange/CBOT, the global derivative exchange valued at about 25 billion dollars. According to Euronext, the merger will allow a reduction of trading fees by between 10 and 15 percent after two or three years. In

reducing its fees, NYSE/Euronext hopes to attract more investors, including large investment banks.

Comment

¶13. This merger comes amid a rush for consolidation among global exchange operators. The Parisian financial community hopes to develop its role as a global financial center.

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